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## THE PROMOTION OF TRADE WITH SOUTH AMERICA

In the past twenty years and more, attention has been frequently called to the small share of the people of the United States in the trade of the countries of our sister continent to the south of us, and many writers and statesmen have urged our manufacturers and merchants to push into this territory. Indeed, Mr. Blaine, when Secretary of State, originated the idea of occasional Pan-American conference, or meetings of the representatives of the countries of the American hemisphere, for the purpose of promoting a better understanding, not only in political matters but in trade relations. Little result flowed, however, from his effort, and public attention seemed not at all aroused for the twenty years following 1884. But within the past five years there has been more interest in the matter. The reasons for this revival of interest are numerous. Probably the most fundamental are the facts that we are having a decreasing surplus of agricultural produce to export, and that our manufactures show a growing excess over domestic consumption. Moreover, the digging of the Panama Canal has directed our eyes in the direction of our South American neighbors, and has called attention to the trade possibilities of that part of the earth at a peculiarly opportune time. Again, the revival of the Pan-American conferences in 1906 and 1910 has done a good deal in the same direction. These conferences cannot be said to produce very tangible or direct results. Indeed, they are mostly *pour parlers* into which some people seem to think it impolite to inject discussion of such base matters as trade. They have done good in making the representatives of the various countries better acquainted.

The conference of 1906 was especially favorable to the promotion of good feeling, because of the attendance of Secretary Root and the happy faculty he showed in winning the confidence of the peoples he visited. There was an aftermath of this good feeling at the conference of 1910. The indirect results of these conferences therefore, if they are continued long enough, will surely be good, although as yet little has come from them. And of themselves they do not go far toward establishing a Pan-American hegemony, either in political action, international trade, or political ideals. The establishment of Pan-Americanism in

any sense of the word, if it is ever established, will have to be on a sounder ground than sentiment based on the fact that we all happen to call ourselves Americans. The continuance of interest in these occasions will depend upon our success in convincing the people of the countries of South America that it is to their interest, as well as ours, to bind ourselves into closer commercial relationships.

One result of the efforts of Secretary Root in matters South American, was a renewal of interest in what has been known as the Bureau of American Republics, but is now the Pan-American Union. Under the able direction of Mr. John Barrett this Bureau has attracted wide attention, not only in this country, but in the countries of South America as well. The monthly bulletin published by the Union is full of interesting statistical, descriptive, and pictorial matter. The erection of a beautiful building at Washington to be the home of the Pan-American Union, through the beneficence of Mr. Carnegie, has made a physical center of activity and interest which did not exist before, and doubtless will do much to promote friendly relations among the representatives of American countries.

It is not the purpose of this article to recite the oft told story of our failure to develop a large trade with the countries of South America. The statistics have been often published and are accessible in government publications as well as in general works. The purpose of the present article is rather to discuss some of the causes of the previously existing condition, together with some of the suggestions made to change and improve them. The constant iteration of the facts is of little importance, unless an examination of the conditions shows a motive for action on our part. Just as the political, commercial, and social ideal of Pan-Americanism can never be established by conferences, so trade cannot be extended by constant reminders of our failure to extend it. Many of our manufacturers and merchants who produce goods for foreign consumption, have been and are better informed, than either government officials or students, of the possibilities for trade in the countries under discussion, but under existing circumstances have not thought it worth while to enter the field.

Nevertheless, it may make the situation clearer if we recall the general facts of South American trade. The figures are not available for all the countries for the same year, but a loose estimate of the exports and imports for 1909 is in the neighbor-

hood of 1700 millions of dollars.<sup>1</sup> Over 1400 millions of this was made up of the trade of four countries, Argentina, Brazil, Chile, and Uruguay, as shown by the following table, taken from the U. S. *Monthly Summary of Commerce and Finance*, September, 1910, page 522.

## TOTAL COMMERCE OF FOUR SOUTH AMERICAN COUNTRIES WITH THE WORLD

[000 OMITTED]

	<i>Imports</i>		<i>Exports</i>	
	1899 <sup>a</sup>	1909	1899	1909
Argentina	\$112,761	\$292,160	\$178,445	\$383,443
Brazil	96,175	180,604	197,155	310,261
Chile <sup>b</sup>	38,785	95,660	58,939	111,847
Uruguay <sup>c</sup>	26,525	38,420	37,818	47,347

	Excess of Exports		Increase During Decade	
	1899	1909	<i>Imports</i> Per cent	<i>Exports</i> Per cent
Argentina	\$65,684	\$91,283	159.10	114.88
Brazil	100,980	129,657	87.79	57.37
Chile <sup>b</sup>	20,154	16,187	146.63	89.77
Uruguay <sup>c</sup>	11,293	8,927	44.84	25.20

<sup>a</sup> Years ending December 31, 1899 and 1909, except Brazil in which case the years end December 31, 1901 and 1909.

<sup>b</sup> Including gold and silver. <sup>c</sup> Including gold and silver ore.

The rate of increase is seen to be very great, particularly for Argentina and Chile.

The share of the United States in this total trade is shown by five year periods as follows:<sup>2</sup>

COMMERCE OF UNITED STATES WITH SOUTH AMERICA AS A WHOLE<sup>3</sup>

Imports into the United States from South America		Exports from the United States to South America	
1890 <sup>4</sup> .....	\$ 90,006,144	1890.....	\$38,752,648
1895.....	112,167,120	1895.....	33,525,935
1900.....	93,666,774	1900.....	38,945,763
1905.....	150,795,800	1905.....	56,694,131
1910.....	196,164,786	1910.....	93,246,820

<sup>1</sup> Estimate based on figures given in *Estudio sobre el Comercio Argentino con las Naciones Limitrofes*, by Ricardo Pillado (Buenos Aires, 1910, p. 163).

<sup>2</sup> Unfortunately it is difficult to get reliable figures for the different countries for corresponding periods.

<sup>3</sup> Figures for 1890 from *Monthly Summary of Commerce and Finance*, for June 1900, p. 3405; for other years, *Ibid.*, June 1910, p. 2209.

<sup>4</sup> Year ending June 30 in each case.

Turning to the figures of our trade with particular countries in the southern continent, we find that we are now sending more to Argentina than to any of the others, and getting more from Brazil. The figures below tell the story:

IMPORTS<sup>5</sup> INTO THE UNITED STATES FROM:

	1890 <sup>6</sup>	1900	1910
Argentina	\$5,401,697	\$8,114,304	\$33,463,264
Bolivia	30	22	189
Brazil	59,318,756	58,073,457	108,154,491
Chile	3,183,249	7,081,186	20,921,326
Ecuador	535,060	1,524,378	2,859,714
Peru	351,695	2,122,543	7,621,497

## EXPORTS FROM THE UNITED STATES TO:

	1890	1900	1910
Argentina	\$8,322,627	\$11,558,237	\$40,694,941
Bolivia	11,002	59,223	603,721
Brazil	11,902,496	11,578,119	22,897,890
Chile	3,219,465	3,287,362	8,304,246
Ecuador	714,924	1,216,008	2,215,951
Peru	1,418,561	1,662,475	4,548,053

The following table<sup>7</sup> gives the figures of our South American trade in some detail by countries for 1909:

TRADE OF THE UNITED STATES WITH SOUTH AMERICA IN 1909:  
(12 MONTHS ENDING JUNE)

	Imports	Exports	Balance of trade	
			In favor of U. S. A.	Against U. S. A.
Argentine Republic	\$22,230,182	\$33,712,505	\$11,482,323	
Guiana (British)	791,349	2,009,988	1,218,639	
Bolivia	138	792,691	792,553	
Guiana (French)	39,728	371,615	331,887	
Paraguay	16,777	52,268	35,491	
Brazil	98,053,229	17,527,692		\$80,525,537
Chile	13,712,373	5,466,286		8,246,087
Venezuela	8,313,609	2,568,211		5,745,398
Columbia	7,010,304	3,679,070		3,331,234
Peru	6,386,544	4,557,864		1,828,680
Ecuador	2,730,372	1,849,657		880,715
Uruguay	3,726,877	3,360,313		366,564
Guiana (Dutch)	865,743	612,087		253,656
Falkland Islands	1,499	1,433		66
	\$163,878,724	\$76,561,680	\$13,860,893	\$101,177,937

<sup>5</sup> Figures for 1890 from *Monthly Summary of Commerce and Finance*, June 1899, p. 3404 ff.; for 1900, *Ibid.*, June 1900, p. 3420 ff.; for 1910, *Ibid.*, June 1910, p. 2208. <sup>6</sup> Year ending June 30 in each case.

<sup>7</sup> From Division of Commerce and Industry, Department of Agriculture, Argentine Republic, 1910. "Argentine International Trade."

It will be seen that of our total exports to these countries more were taken by Argentina in the year in question than by Brazil, Chile, Peru, Uruguay, Venezuela, and Paraguay together.

It is evident that the trade of the United States with all South American countries has received a great impetus, particularly in the past ten years. Of course, the larger volume of it is with Brazil and Argentina, although the possible expansion in the trade with other countries, particularly those on the west coast, is very large. An increase of one hundred millions in our total imports from South America in ten years seems on its face strong evidence that we are beginning at least to come into our own in the trade of this part of the world. The exports show an increase of 55 millions for the corresponding dates. The great expansion, however, is in the trade with two or three countries, notably Argentina and Brazil, and the difference in our exports and imports to these countries needs a word of explanation.

If we study the articles imported to us from Brazil, we shall find that coffee and rubber are the two leading items. The imports of coffee increased from \$34,000,000 to \$53,000,000 between 1890 and 1910; those of rubber rose from \$18,000,000 to \$47,000,000 in the same period. One or two new articles of importation from Brazil appear, moreover, in the past two or three years; especially should be mentioned goat skins and the hides of cattle, both of which began to appear in considerable quantities some three years ago, and now amount to about \$3,000,000.

Our imports of wool from Argentina increased from practically nothing in 1900 to \$5,500,000 in 1910. In 1908 we took a little over half of the dried cattle hides exported from Argentina, amounting in value to \$4,400,000, as against less than \$1,000,000 in 1900. A comparatively new article of export is the extract of Quebracho and Quebracho logs for tanning purposes. A little more than half of the extract is taken by our tanning mills in this country, and we also use about a quarter of the value of the logs. Bones, horse hair, and some fibers also show an increase.

As to our exports to these countries, the great increase between 1900 and 1910 has been in agricultural implements, lumber, wire, twine, electrical appliances, and miscellaneous small machines. Our exports of agricultural implements to Argentina rose from a little less than \$2,000,000 in 1900, to a little more than \$6,000,000 in the year ending June, 1910, and during the same period we sent a little more than twice as much, in value, of

lubricating and illuminating oils. Our lumber exports became \$5,000,000 instead of one; our barbed and other wire exports rose from practically nothing to a million, as did our exports of twine. Brazil, while taking none of our locomotives in 1900, took about \$1,000,000 worth in 1910, and her demand for our electrical appliances, phonographs, and similar things, rose from a trifle ten years ago to \$1,750,000 in 1910. She also took more of our oils.

The figures that have been quoted show that trade is already increasing with the South American countries, and it is not out of place to ask why we should consider it necessary to interfere, with a view to stimulating its growth. Probably very little that we do will alter the circumstances. It is in the nature of things that our trade with our sister countries to the south will increase as we become less and less an agricultural and more a manufacturing country. We have reached the point of advantage in this respect, and are trying to find outlets for our increased production. The very agitation of the subject, therefore, is evidence that the time is here when, in the natural order of things, an expansion will come in our South American trade. In other words, our trade with South American countries is bound to expand, whether we make special efforts in that direction or not. But there is no doubt that the movement can be greatly stimulated by a study of the reasons for our failure to show more largely in the foreign trade of South America in the past.

We must remember that it is dangerous to write of South America as a whole, for South America is a continent, whose climate varies from tropical to nearly antarctic. Moreover, it comprises eighteen or twenty countries, whose people are, to be sure, mostly of Spanish origin, yet differ considerably in economic and political conditions, with centuries of different relationships to the natives of the country, and with interests varying in some cases as widely as those of any two European countries. Moreover, most, if not all, of them have secured political independence at comparatively recent dates, and political conditions have not yet in all cases become so settled as to promote that internal economic development for which peace is so necessary, or that development of foreign relations which in turn goes so far to promote industry and trade.

We must remember, too, that the population of all the countries of South America has been, until within a very few years,

insignificant when compared with the extent of territory occupied by them. All of these countries are very sparsely settled. The population of Brazil is estimated now at more than 20,000,000; twenty years ago it was only 16,000,000. That of Argentina in 1890 was 3,460,000, and now is 7,000,000. Chile has about three and a half million people, while ten years ago she had about two million. The population of Peru in 1890 and now is estimated at about 2,600,000, and 4,500,000, respectively. These are the principal countries on the South American continent. Their aggregate population therefore twenty years ago was probably about 20,000,000, and very widely scattered.<sup>8</sup> At only a few points in the whole continent were there enough people to make trade profitable, apart from obtaining financial and industrial concessions for which we have had no capital. Moreover, the few places at which population was more or less concentrated were scattered around the shore of the continent at distances varying from 1500 to 3000 miles. Over against the possibility of developing trade with people living at such distances and in such groups, were the openings furnished by the markets of Europe. Here we found a dense population in contiguous centers, with a demand for our products, facilities for transportation, credit, personal and social connections already established. Under such conditions it needs no wisdom to see that trade would follow the line of least resistance first, and develop with Europe. In short, altogether apart from the character of the South American market, its demand was not large enough to justify strenuous exertion, at any rate, on the part of those of our manufacturers and merchants who had goods to export. Moreover, too little was known about the markets and the people, their methods of living, and their ways of doing business. A whole new machinery of trade would have had to be established in order to develop trade with them; and as already remarked, the volume of trade to be developed was not large enough to justify this. Quite the opposite was true of the European markets.

Such foreign trade as South American countries have hitherto enjoyed has naturally been with the countries which supplied capital for their development. The general economic conditions in South American countries have always been such as to need

<sup>8</sup> These estimates are from various sources, principally the *Bulletin of the American Republics*.



large amounts of foreign capital. Obviously the people who invested heavily, who supplied the money for the agricultural and commercial development of the countries were the ones who were in the best position to control the direction of their trade. The investment of millions of English and German capital in Argentina, for example, is made, not by sending gold coin to be expended in that country for the purchase of the supplies necessary to carry on the industries started, for these supplies could not have been bought in Argentina; but by sending ship-loads of English and German goods to Argentina. In other words, the financing of the industries of a South American country, by the very nature of the processes involved, implies the development of trade with that country. For the things necessary for railroads, manufactories, and all other purposes for which the foreign loans are made, must be brought from abroad, and naturally come from the citizens of the countries in which the loans are placed. In other words, no student of economics needs to have it explained that these foreign loans are made, not in the form of money, but in the form of goods and services. In return, after the industries for which the concessions are granted, and the loans made, have become productive, part of their income goes as exports to pay the interest on the loans, usually to the country whose people advanced the capital. The financing of industries in an undeveloped country by the citizens of another country, therefore, is itself a cause of a certain amount of trade between the two countries. This cause of trade between ourselves and the people of South America has not been of very great moment, although of course a good many Americans, especially in recent years, have secured important concessions from foreign countries in the southern hemisphere.

Again, no explanation of the causes of the smallness of our trade with South American countries in the past, would be adequate without a comparison of the economic condition of those countries up to the present time, with that of our own. They have been and, indeed, still are, largely undeveloped. It is true that some kind of production has been carried on in certain parts of South America, for three centuries or more. Minerals have been extracted from its mountains, crops have been produced, and cattle have been raised. In other words, all of them are countries which have been in a primitive economic condition, so far as they have been settled and exploited at all—and there

are large sections of them which are still unknown territory—whose products have been and are products of the soil. Only raw materials could be furnished by them. If we look at the returns of the articles produced in three or four of the larger ones, Brazil, Argentina, Chile, and Peru, we find coffee, wheat, corn, rubber, nitrates, some cotton and wool, and minerals. What these countries needed by way of exchange in foreign trade was therefore manufactured goods and materials for the exploitation of their natural resources.

If, now, we consider the past economic conditions in our own country, it is obvious at once that no trade of any magnitude would have been possible until a comparatively recent date. We ourselves, have been in the main, an agricultural country. Like our South American neighbors, we have been producing the materials and manufacturing a few of the necessities of life. We have been exporting wheat, cotton, petroleum, tobacco, and other products of the extractive industries. Obviously there was no basis of exchange here. We could not sell these articles to the people of South America in exchange for their products, because their products are substantially the same. Naturally enough, therefore, the products of the South American countries, like our own, sought European markets in exchange for articles which they, like us, were either not producing at all at home, or were producing in quantities insufficient to meet the home demand on the existing level of prices. A certain change in our own conditions is doubtless one reason why the call for the promotion of South American trade has become louder and more insistent in the past ten or fifteen years. The proportion of our manufactures to our total production and the proportion of manufactured articles in our exports have both been increasing. In other words, we are having now a surplus of manufactured goods beyond what satisfies our home demand at existing prices. The reason for seeking new markets is therefore more urgent than it has ever been with us before.

But for us to have a surplus of manufactured goods is not of itself a sufficient basis for developing a trade with countries whose agricultural conditions and whose production of raw materials are similar to our own. We must not only have things to sell, which they want to buy, but we must also want to buy things which they want to sell; or else we must sell our goods at a sufficiently low price to justify them in purchasing in our market

rather than in the European markets, and still leave margin enough to settle their accounts with their European creditors. In other words, the cost of the triangular settlement must furnish profit over and above what they would get if they dealt directly with their European customers. To put the matter in another way, the people of South America have found in Europe customers for their products who could, in return, supply them directly with the manufactured articles they need. If they had attempted to trade with us we could not until recently have furnished the manufactured articles they wanted, and they would have found us unwilling to take their products. Therefore, even if we had succeeded in selling them our manufactured goods, they would have had to pay us for them by selling their own products in Europe and finding other goods which we would be willing to take from them in payment for what we had sold them. This would have been a more expensive trade than the direct trade between them and the people of Europe. The same reasons that have built up a direct trade between ourselves and Europe have built up a direct trade between South America and Europe. Now we are entering the field of competition with Europe to sell manufactured articles; we are, to certain extent, in the same position as Europe in our need for raw agricultural products and materials. The basis is laid for a direct trade.

Of some consequence, although by no means so important as is sometimes thought, is the feeling of prejudice that has existed between the peoples of South America and ourselves. They have felt, not altogether without justification, that our attitude was domineering, that we were lacking in culture, and that our personal and national ideals were so far different from their own that they and we could not get on well together. On the other hand, too many of us have been inclined to think of the people of South America as uncivilized, barbarous or even savage; and in so far as they were of European descent, to look upon them as degenerate scions of a race of cruel conquerors, who exploited the country. At the same time, many of our people have thought that the people of South American countries lack virility, resourcefulness, and the energy which we have been so long worshipping. Both views are wrong. Yet the accusation that we are domineering is not altogether without foundation. Occasional suggestions to change the significance and expand the scope of

the Monroe doctrine have not escaped the notice of our South American friends. From a simple statement that this country would not permit European nations to annex territory in the southern hemisphere, the Monroe doctrine has become, to the minds of some, an attempt to form a hegemony of American states, of which the United States shall be the principal and dominating factor. From an attempt to protect the weak and struggling states of the southern continent against the encroachments of Europe, we have passed, in the minds of some, even of our own citizens, to an attitude of attempting to influence, if not control, their actions. Many of the people in South America therefore have distrusted our purpose, and feared our power. That their distrust and fear are not altogether without foundation is shown, not only by the interpretation that many of our newspapers and fellow citizens sometimes give to the Monroe doctrine; but also by some of the utterances of some of our statesmen. Secretary Olney's famous but unwise and uncalled for statement at the time of the Venezuelan dispute, that the United States is the supreme power on this hemisphere, and that its fiat is law, has not been forgotten, nor altogether forgiven. Naturally enough, many people still ask what liberty of action would be left to the independent sister states of this hemisphere if that statement were true and acted upon.

It is further held by some of our South American friends that our diplomacy in the past has been at times unnecessarily "raw", and so has created a feeling of prejudice against Americans and things American. Without going into details on this point, it is sufficient to remember that with one or more of the countries of South America we have been at political cross-purposes for a good many years; and our diplomatic methods in these disputes have not always been those of the velvet glove over the mailed fist.

Still again, prejudice has been created against us on account of the character and conduct not only of some of our own representatives in the past, but also by a class of fellow citizens who, although in small numbers, have frequently drifted to those countries. The writer was told at one important place in South America, that until within a comparatively few years when an American appeared in their city as a settler, he was usually asked what his name used to be.

Of economic reasons for the paucity of our trade relations

with the countries south of us in the past, an important cause of difficulty is our method of doing bank business and the lack of banking facilities. As has been recently pointed out,<sup>9</sup> we suffer in our foreign trade from the want of a discount market and the non-use of bank acceptances. Under our method of banking, importers cannot open credits with banks as can their English or German competitors, and consequently cannot finance their foreign purchases as easily as they can. The American importer is compelled either to pay for goods at once, by direct remittance of funds, or he must get the foreign consignor to provide funds to finance the shipment. Practically, in such transactions, the shipper draws on the American importer and turns his draft over to his bank for collection. As Mr. Jacobs points out in the article already referred to, such drafts are sent for collection because there is no general market for them; they are not drawn, as would be the case in foreign countries, on banks whose standing is well known. To quote Mr. Jacobs:

"Either of these two methods of financing our imports is expensive even when the time between the shipment and the receipt of the goods is short. When the time is much longer, as in the case of imports from South America and the Far East, the cost is almost prohibitive—that is, so great that we cannot compete on an even basis with foreign buyers. In fact, we might be practically excluded from these markets if a makeshift were not possible. Our importer gets around our lack of banking facilities by having his bank arrange a credit with its London correspondent. He receives an undertaking, called a commercial letter of credit, giving the terms of the credit—that is, the name of the London bank upon which the bills are to be drawn, the amount which may be drawn, the character of the goods which are to be purchased, the tenor of the bills and the documents which must accompany them. On the strength of such a letter of credit, the shipper in South America, for example, is able to dispose of his bills on London and thus receive immediate payment for his goods. The local bank, which buys the bills, sends them with the documents to its London correspondent, which presents the bills to the bank on which they are drawn—that is, the bank with which the credit was opened. Upon the acceptance of the bills the documents are delivered. They are then sent by the London accepting bank to the New York bank, which opened the credit, and the latter delivers them to the importer against his trust receipt. Twelve days prior to the maturity of the bills in London, the New York bank presents a state-

\* See the admirable article on "Bank Acceptances", by Lawrence M. Jacobs, published as a report to the National Monetary Commission, 61st Congress, Second Session, Senate Document No. 569.

ment to the importer, indicating the amount of pounds sterling which must be remitted to London, to provide for their payment at maturity, or rather a bill stated in dollars for the amount of pounds sterling drawn under the credit. In this purchase of exchange, the importer makes payment for his goods. This method, while workable, is obviously cumbersome, yet it is practically the only one which the American importer can follow in connection with such imports. It is expensive for the importer, for not only must he pay his bank a commission, for arranging the credit, but there is included in this commission a charge made by the London bank for its acceptance. Further than that, the importer must take a material risk in exchange. At the time a credit is opened the cost of remitting, say £10,000, to take up the bills in London, might be only \$48,600, or at the rate of \$4.86, whereas, by the time the bills actually mature exchange may have risen and cost him \$4.87, or \$48,700."

Apart, however, from our banking methods, inadequate as these are, is the absence of American banks in South America. So far as the writer knows, there is no American-owned or American-controlled bank south of Panama. Consequently, if an American exporter is fortunate enough to sell a cargo of goods to a South American firm, his draft and all the papers concerning the shipment would go through the hands of bankers who are interested in the success of his competitors. There is reason for believing that information so obtained is, in some cases, put at the disposal of his competitors; for, of course, many of the people who are interested in the foreign banks or banking agencies now existing at the principal points in South America, are also interested in the manufactures and trade of the countries of their owners. Indeed, some of the owners are probably personally interested in the enterprises that produce the goods. It is not surprising then, that with complete information as to the cost, freight, insurance, and price, not only of the articles produced in their own countries, but of similar articles produced in this country and sent there to compete, our foreign competitors for South American trade have us at a tremendous disadvantage.

Still another obstacle in the growth of our trade with the countries of South America is the fact that importers in these countries usually need longer periods of credit than we are willing to grant. The reason for this will appear when we remember that the industry of these countries is mainly agricultural. An advance for seed or machinery can be repaid only when the crop is put upon the market. The experience of our own people in

this matter has been very similar until within a comparatively recent time. And our exporters ordinarily did not have sufficient capital to tie up any amount in the extension of credit to customers in this condition. Consequently we have been accustomed to demand payment, either at the time the order was received, or when the goods were delivered. This has been resented as a reflection on the credit of the South American consignee, and has always been impossible for him to accede to because of the economic condition just described. That is, our unwillingness and inability to grant credit for so long a period has been met by their unwillingness and inability to purchase from us on our terms. Moreover, it is very questionable whether in the past it would have been profitable for our exporters to sell on such terms. They found too many ready markets at which they could get immediate payment for their shipments. Our unwillingness to extend credit even if we had been able to do so, is due largely to our ignorance of South American people and South American trade conditions. In some quarters there seems to be a prejudice against the honesty of the South American merchants. This prejudice is mainly due to ignorance. It is at least doubtful whether there are any more failures to meet obligations among the merchants of Argentina, Chile, Brazil, and elsewhere, in proportion to businesses done, than in our own country or in Europe. To a considerable extent the prejudice has arisen from ill-considered extensions of credit under conditions where the risk was large and full inquiry had not been made.

The character of our business agents and their methods of selling goods have not always been happy from the point of view of the South American business man. Frequently the representatives of American business firms have not been able to converse with their prospective customers in the language of the latter. A knowledge of the vernacular is essential for one who is trying to introduce business. Of course it is possible to talk through an interpreter, but one can hardly push business very extensively through an interpreter. Moreover, our representatives have been grossly ignorant, when compared with their German and even their English fellows, not only of the language but of the customs and needs of the countries. As a rule they have been unable to quote prices or measures or weights in the standards known to the prospective purchaser. Our people have been too generally satisfied with sending bulky catalogs and price lists printed in English, de-

scribing their goods in yards, pounds and dollars, when the native was looking for meters, kilograms and pesos. Our business representatives have not studied the markets of the South American countries. They have not known what kind of goods the people want, nor in what sizes, shapes or patterns. A similar criticism has frequently been made of the English exporter, and is given as one of the principal reasons why his German competitor has driven him so largely from the retail trade of some of the cities of South America. Whether or not it is true of the English manufacturer and exporter, it certainly has been true in large measure of our own, that they have assumed the attitude of "take it or leave it", when dealing with their South American customers.

It is sometimes said that the lack of American lines of ships to South American ports is due to our small trade. It is hard to see the force of this argument. For we have large volumes of trade with other countries without carrying the goods in our own ships, and our trade with South America has been rapidly expanding in the past few years under existing conditions. We must not confuse the absence of American lines of ships with the lack of shipping facilities. There are no ships flying the American flag in the trade with South America, but there are plenty of shipping facilities. An American mercantile marine, a proper part of which shall be engaged in South American trade, is of course a desideratum, but it is not absolutely necessary in order to enlarge the volume of business between the countries. Appeal is sometimes made to our patriotism in behalf of shipping, the real motive of which is frequently an effort to favor some "interests". It is hard to see wherein it is a "disgrace" that we allow our goods to be carried for us by other people if they do it more cheaply than we can do it ourselves. It is no more disgraceful to let others carry our goods than it is to let them raise coffee for us. Appeals to sentiment on behalf of trade expansion must be looked upon with suspicion. It is all very sad to be obliged to deplore the infrequent appearance of the flag in the ports of the world, and it is nonsense to say that "trade follows the flag". The important question for us is whether it is, all things considered, worth while to provide the ships. There are always people ready to stir up public sentiment on patriotic grounds by descanting on the feeling of shame the American who is rich enough to travel abroad feels when he notes the deplorable absence of our flag, and to stand ready to supply the need and so gratify our patriotism—for a



proper profit. We need waste no time on such arguments. Can we not find all necessary shipping facilities as things are? Would we do more foreign trade if we had our own ships than we do now? Would it be profitable for us to provide and sail our own ships? The answers to these questions have an important bearing on our trade relations with South America.

At present there are thirteen lines running out of New York to South American ports. Of these six run to ports as far south as the River Plate, while three go down the east coast and up the west. The rest are divided between traffic to Brazilian ports and the north coast of South America. From New Orleans three lines sail to Panama or Central America, or points on the north coast of South America. Others could be mentioned, and of course, there are steamers to be chartered at almost any time. Many of the vessels out of New York to South American ports also touch Central America, the West Indies, Cuba and Porto Rico. In short, there is little ground for complaint concerning the adequacy of the shipping facilities. If our trade expands, making more ships necessary, they would undoubtedly be supplied. However, although the shipping facilities are adequate, it is important to inquire whether their owners furnish the merchants of the United States rates and facilities that are fair when compared with those furnished European exporters. It has sometimes been charged that the owners of these vessels constitute a trust, and that they discriminate against American goods, in rates, as compared with those that are exported from their own country to points to which these lines ply.

In an article of this kind it is impossible to discuss this question, but if the statement is true, of course it affords a justification for whatever action on the part of our government is necessary, either to procure fair treatment from existing lines, or to favor in such ways as may seem best the provision of ships flying the American flag. If investigation proves that competition is being suppressed in the carrying trade from our ports to South America, we should, either by subsidies or in some other way, enable our producers and exporters to compete on fair terms in these foreign markets. There is little if any doubt that, as our capital increases and it becomes necessary for us to find new lines of investment for our surplus, the same initiative, energy, and skill which the American shows in other lines of economic activity will enable him to take his place among the carriers of the world on advantageous terms.

Assuming conditions of fair competition, we will build and sell our ships as soon as we are satisfied that we cannot make better use of the capital which is necessary to build them. Until that time comes, always assuming that competition is fair, there is no reason, on purely mercantile or economic grounds, for the artificial promotion of the merchant marine. This remark has no reference of course to any arguments that may be advanced on the ground of necessity for merchant ships as an auxiliary support to our navy in time of war.

The thing which would lead most directly and largely to a rapid extension of our trade with the countries to the south of us in the early future, is a larger investment of American capital in the development of these countries. A good many concessions for mining, railroads, rubber and other industries, have already been obtained by American capital, and there are some companies, notably the Grace Brothers of New York, which have been engaged in South American trade, particularly on the west coast, for a great many years. Several American companies have also obtained concessions for mines in Peru and Bolivia; some have obtained railroad concessions, both in those countries and in Ecuador, Uruguay, and elsewhere; and the American meat packers, particularly the Swifts and Armours, have recently invaded South American territory and established plants for the export of Argentine beef to Europe. Some concessions have been worked, however, rather in the way of exploiting the countries that granted them than for the purpose of building them up. The building of a railroad system or a group of docks, which forms a permanent productive investment in a country, is looked on properly as somewhat different from an investment in a mine, the product of which is taken largely or wholly out of the country. In the phraseology of the day, the former is in the direction of conserving and upbuilding the natural resources and economic strength of the country, while the latter is in the direction of exploiting and exhausting them. Moreover, an investment in a railway, for example, gives a greater hold upon the country and the people than an investment in a gold mine; for the upbuilding of the former intertwines itself with all the interests of the country, a fact which is not necessarily true of the latter. The people who secure concessions of the governments of the countries of South America and exploit these concessions to their own profit, while at the same time showing due regard for the interests of the country, find in their concessions a vantage ground from which to

expand trade. When they need machinery, tools or material of any kind that has to be imported, they naturally look for these to the producers of their own country with whom and with whose products they are acquainted. The investment of American capital in South American projects is of itself, as has already been pointed out, simply the sending of American goods for use at the place of concession. The first condition necessary, therefore, for the expansion of our trade is the devotion of part of our capital to the use of the South American people, so that by aiding in the development of their natural resources we may win their confidence and good will.

But we must be ready also to produce a surplus of manufactured articles of the kind wanted in South America. That is, we must be sure that our productive capacity is sufficiently in excess of our home consumption and the demand of our foreign markets already established, to justify us in undertaking to supply new markets in South America. Complaint has been heard by the writer that our people are inclined to use these countries as "dumping grounds" only, instead of regular markets. That is to say, that we turn to these South American countries as convenient places to which to send our products when we have an unusual surplus, but do not look upon them as steady customers. The South American is so constituted that he resents this attitude. Unless we have goods to send regularly we cannot establish a permanent trade. Now, it is clear that very few manufacturers or exporting houses can afford to undertake the establishment and financing of a large export business at any South American center. This requires considerable capital and, above all, a sure supply of goods regularly available. The most feasible plan, therefore, would be the organization of a commission house or agency, established in the principal South American cities to cultivate the market for American products, with capital sufficient to compete with English, French, German and Belgian houses in the matter of granting credit, and representing a sufficient variety of large firms in the United States to be sure that orders would be promptly filled with goods made to suit the needs and prejudices of the country, at prices which would compete with those of other foreign sellers. These agencies, or commission houses, should employ natives as largely as possible, and should insist that their superior officers shall also speak the language of the country. In this way only can existing prejudices and needs become known and properly met, and new wants stimu-

lated and developed. The capital at command should be large enough to afford credit to the purchasers of our goods when the American exporter himself is not willing or able to do so. Above all things, the agency or commission house should be able to guarantee the quality of the goods, and establish a reputation for scrupulously honest dealing. There are probably few better markets in the world for automobiles than Buenos Aires in proportion to its population, yet few American machines are seen there. The reason given is that when the demand for automobiles first appeared, it was supplied with machines of American manufacture, which turned out to be shoddily built, although gaudily painted and varnished. Of course they broke down after a little use, and the prejudice against American machines became so strong that a would-be purchaser now would hardly consider a proposal to buy one.

The difficulties in the way of our expanding trade due to the lack of proper banking facilities have been pointed out. This is a matter that has been talked about in certain quarters for a good many years. It has not been carried through partly for the same reason that has been the primary cause of the prevention of the expansion of our trade, lack of capital for foreign investment; and partly because the conditions of success have not been carefully studied or thoroughly understood. There is no doubt of the profitableness of the banking field in Rio de Janeiro, Buenos Aires and other cities of Argentina, and in Santiago, Valparaiso, Lima and probably elsewhere. The existence of so many foreign banks with large capital is evidence enough of the truth of this statement.

Many people seem to think that an American bank established in a South American center should be organized as nearly as possible like a national bank and managed from New York. A bank organized in Rio de Janeiro, Buenos Aires, or elsewhere in South America, on these lines would almost certainly fail. There is not room for a bank that does a purely commercial business. The business of such a bank must be miscellaneous. The banking habits of the people of these countries are different from ours. The staff of the bank, or at any rate that part of it whose members come into immediate and close contact with the business men of the community where the bank is located, must know the people and their ways of doing business, and must be able to converse with them in their own tongue. From our point of view, there is a good

deal to criticize in the ordinary business methods of the banks of South America. A good many improvements could be made by the substitution of some of our practices for theirs, and an American bank established at any important point would win approval if it introduced some of these practices, provided it did not strike at the prejudices and long established habits of the community. The most practicable way to establish American banks or American-controlled banks, is to buy up the stock of some bank already in existence with a good business but with small capital. The capital could then be enlarged to suit the purposes of the organizers. The staff, however, should be kept and added to from experienced native employees in the community, with the addition of a manager or other officers from our own country to exercise general supervision over the business. It would be better if he, too, should be able to speak Spanish and should have a general familiarity with the banking and business methods of the country. For a time at least, he would find it necessary to follow closely the advice of his older and trusted employees who are natives. Such banks, once organized, would find their profits not only in selling exchange, but also in making mortgage loans, discounting bills, and in short, doing a miscellaneous banking business. They should be ready to act as collectors and commission agents for American business houses. Their capital should be large enough to enable them to compete successfully with foreign banks already established. Finally, as already indicated, they should be organized under the laws of the country of their domicile.

The opening of the Panama canal will put us in a position of peculiar advantage with reference especially to the trade of the countries on the west coast of South America. As we have seen, these are the poorer countries in agricultural resources. They are richer, however, in minerals and of considerable importance in other respects. For example Chile buys approximately \$300,000 worth of agricultural implements from us each year. She also took nearly \$600,000 of textiles in 1909-1910, and over \$1,000,000 worth of illuminating and lubricating oils. Unfortunately, our trade with Chile in certain articles seems to be decreasing. We sold her nearly \$700,000 worth of freight and passenger cars in 1908, less than \$150,000 worth in 1909, and \$32,000 worth in 1910.<sup>10</sup> So our manufactures of cloth, which were \$742,000 in 1905, \$870,000 worth in 1906, fell off to less

<sup>10</sup> The years end June 30.

than \$600,000 in 1910. Our exports of builders' hardware to Chile also have not increased as they should, the figure for 1910, \$190,000, being about \$100,000 less than that for 1907. A similar comment may be made concerning other articles. Our relations with Chile have not been such as to promote the friendly feeling necessary to expand trade.

With Peru and other countries on the west coast conditions are somewhat different. In Peru particularly, there exists a feeling of friendliness to the United States that makes the present time a very opportune one for pushing our trade and securing concessions. Undoubtedly in the next century, or even half century, a large proportion of the world's output of the more important metals, excepting perhaps iron ore, will have to come from northern Chile, Peru and Bolivia. The trade in these metals will follow the course that the trade of the east coast has followed. That is to say, it will go to the people who invest capital in these countries and contribute towards their economic development. Now the opening of the canal puts all the ports of the west coast countries much nearer to our own than are the ports of Europe. This is an advantage which should enable us to outstrip our European competitors in supplying our South American neighbors with the things they want and so build up a larger trade with them. The opportunity certainly is one the like of which has never occurred before, and our success will depend partly on our readiness to spare the capital and partly upon the energy with which we push our interests.

One change of great importance must be made, however, in our national attitude towards foreign trade if we are to build up a great volume of business with our South American neighbors. We must either by reciprocity treaties or by a change in our general system of tariff duties, make it possible for our South American customers to send us their goods. We cannot sell to them unless we buy from them. They cannot take our products in large amounts if we do not take theirs. Therefore it will be necessary for us to fix rates of duty which will make it possible for their products to be sold in this country. As has been pointed out, these products are mostly agricultural and mineral.

Our own production of meat, for example, has been falling off, and already there are signs of an import movement to increase our supply for home consumption. This will happen in time with our field crops as well as with our beef. We shall then be obliged

to get supplies from foreign sources. We cannot expect to supply agricultural products to Argentina, Chile, Brazil and Peru, or to compete with them much longer in supplying Europe with food. We must be prepared to compete with Europe in supplying them with manufactured articles. To do so we shall find it necessary to get our raw materials and food as cheaply as our European competitors, and we shall not be able to continue taxing these by high tariff duties upon such as we need to import. We must stand prepared to lessen our duties on the products of South American countries.<sup>11</sup>

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NOTE ON THE STATISTICS OF EXPORTS AND IMPORTS

<sup>11</sup> Great care must be exercised in comparing the official statistics of foreign trade of South American countries with others. Frequently the official South American figures do not correspond with the official figures of the countries to which the data relate.

For example, according to the report of the Argentine consul in London, the value of Argentine merchandise imported into Great Britain in 1909 was \$163,371,000, gold, while the corresponding exports from Great Britain were \$91,573,000, gold, making an apparent balance of trade in favor of Argentine of \$71,797,000, gold. The Argentine official figures, however, showed a balance of trade in favor of the United Kingdom of \$18,453,000, gold. The greatest difference, amounting to more than \$18,000,000, appears in the figures for the exports. There are four reasons for such discrepancies. In the first place, large quantities of merchandise, especially grain, are exported from Argentina "for orders" to be received at British ports of call, and it has been impossible to classify the merchandise so dispatched, according to the countries of ultimate destination.

In the second place, the period between the time of dispatch of merchandise and the time of its arrival, causes entries of import to be made a month or so later than the entry of statistics of export.

A third cause is the difference between the Argentine and English method of determining the value of exports and imports. On the Argentine side the exports are calculated on the basis of average market value, while the imports are estimated according to the tariff of values, which raises the actual value sometimes many per cent.

In the fourth place, there is no separation of the market value of the goods as such at the point of export, and their market value at the point of import, where freight, insurance, commissions, etc., are included.